CHANNEL AREA LOGGERS LTD.

ANNUAL REPORT

1984 - 1985

CHANNEL AREA LOGGERS LTD.

BOARD OF DIRECTORS

Lester Everett - Chairperson
Chief - Berens River Indian Band

Bruno Seppala
Chief - Timber Management & Development
Department of Natural Resources

Edmond Berens
Councillor - Berens River Indian Band

Bill Hudson
Councillor - Berens River Indian Band

Henry A. McKay
Councillor - Community of Berens River

Henry G. McKay
Councillor - Community of Berens River

Jack Clarkson
Entrepreneur - Berens River

OFFICERS

Lester Everett

President

Gordon P. Trithart

Secretary/Treasurer

George Kemp

Manager

HEAD OFFICE: Berens River, Manitoba

TABLE OF CONTENTS

		PAGE
I.	INTRODUCTION	1
II.	SYNOPSIS OF YEAR'S EVENTS	2
III.	REVIEW OF RESULTS	3
	A. Financial Results	3
	B. Production	5
	C. Other Benefits	6
	D. Training	6
	E. Other	6

APPENDIX - Audited Financial Statements
For Year Ended March 31, 1985

CHANNEL AREA LOGGERS LTD. - ANNUAL REPORT

APRIL 1, 1984 - MARCH 31, 1985

I. INTRODUCTION:

Channel Area Loggers Ltd. is a Crown Corporation established in 1973 under the Manitoba Natural Resources Development Act to provide, as a principal objective, an economically viable logging operation creating employment and training opportunities for residents of Berens River and surrounding communities.

The Company conducts pulpwood harvesting operations on the east side of Lake Winnipeg where a valuable forestry resource exists and where there is a serious lack of employment opportunities.

Mechanical harvestors, mainly skidders, are used to harvest spruce pulpwood in eight foot lengths for sale to Abitibi-Price Inc. at Pine Falls. Abitibi-Price Inc. accepts delivery of the pulpwood at a barge landing on the east side of Lake Winnipeg. The product is used to produce newsprint at their Pine Falls mill.

Losses since the Company's inception in 1973, now total $1,963,258. Profit/(Loss) for the last six fiscal years ending March 31st are as follows:

	Profit	Loss
1980		$278,011
1981		173,487
1982		17,262
1983	$38,976	
1984		148,949
1985		235,635

...2/

Profits/(losses) in the foregoing table are prior to receipt of general subsidies from the Province, but include receipt of specific subsidies provided to offset developmental costs. Total direct assistance by the Province for the year under review was $242,917 compared to $213,434 for year ending March 31, 1984 (Refer to page 4).

II. SYNOPSIS OF THE YEAR'S EVENTS:

The important and progressive achievements demonstrated in the profit/(loss) for the two years ending March 31st, 1983 (1982 - ($17,262) and 1983 - $38,976) have been reversed by the poor results for the two years ending March 31st, 1985.

While the physical move of the camp facility was accomplished in March 1984, placement of the buildings, water, sewage, electrical and alterations were accomplished in the summer of 1984. Additions included two, eight man trailers to accommodate truckers.

The Company operates from the base camp providing goods and services to Owner/Operators and their crews. Each crew has their own mobile bunkhouse in the cutting area, thus allowing them to be close to the work area at all times.

Road access to the Community is limited to winter months. Supplies and employees must be flown to the campsite from April to December inclusive. While an all weather road from the Community to the campsite (15 miles) would enhance the operation considerably and provide access for reforestation, the cost is financially prohibitive to the Company.

...3/

Fires played a negative role in prior years by depleting prime pulpwood inventory in Forest Management Unit #38. This Forest Management Unit is an area east of Lake Winnipeg, extending some 10 miles north of Berens River and south to the Bradbury River. In addition to the market limitation placed on production by Abitibi-Price Inc., the Company is also constrained by the maximum allowable annual cut of mature spruce. This annual allowable cut is the amount of a timber species that can be harvested in perpetuity without depleting the stocks. Fire has decreased the annual allowable cut in this particular area from in excess of 30,000 cords in 1979 to under 19,000 cords in 1985.

Outside contracting was limited to the slashing of 1,432 cords of snipper wood, rental of a crawler dozer for road construction, and the hauling of wood to the landing.

There were no new Directors appointed. Chief Lester Everett of the Berens River Indian Band was appointed President and Chairperson to replace Mr. Bill Bennett who resigned due to personal commitments.

III. REVIEW OF RESULTS:

A. Financial Results

Appended are audited financial statements for the fiscal year 1984-85 as prepared by the Provincial Auditor. These statements report a loss of $235,635 for 1984-85 compared to a loss of $148,949 for the previous year. These figures are following receipt of specific developmental subsidies provided by the Province.

The substantial deterioration in financial results is attributed to increased hauling costs ($10.65/cord in 1983-84 vs. $14.00/cord in 1984-85), road costs ($42,913.00 in 1983-84 vs. $104,793.00 in 1984-85), and the Company's

...4/

inability to obtain an adequate return on sale of goods and services. As a result, it was necessary for the Province to provide the following assistance:

	1983-84	1984-85
1. General Subsidy to Offset Annual Loss	$109,973	$235,635
2. Specific Subsidies		
a) Operating		
Campsite Relocation	55,700	
Winter Road Construction	15,826	
Consulting Fees	6,486	
Strip Cutting Program	4,412	7,282
Sub-Total	$ 82,424	$ 7,282
b) Capital		
Timber Inventory Survey	$ 21,037	
3. Total Assistance	$213,434	$242,917

The following table illustrates per cord costs for major expenditure categories over the past three years.

Cost Category	1982-83	1983-84	1984-85
Cutters & Contract Wood	$31.26	$34.00	$33.32
Transportation	13.11	9.74	18.71
Company Equip. & Main.	2.44	3.73	3.45
Roads	7.12	8.48	7.91
Kitchens & Dorms	1.72	.97	.83
General & Admin.	13.22	31.84	18.69
Supervision & Bush	.75	2.89	2.59

Per cord costs in 1984-85 are lower in many categories due to the 79% increase in the volume of wood produced. Those cost categories which do not reflect reductions from 1983-84 are due either to higher per cord costs (e.g. contract hauling) or substantially higher fixed costs (e.g. road construction). Higher road and hauling costs were due primarily to an increase in distance from cutting

...5/

area to landing site (27 miles in 1984-85 vs. 15 miles in 1983-84).

B. Production

An outline of production for the past four years and delivered pulpwood for the past five years are included in the following tables:

Annual Pulpwood Production in Cords
For the Years Ending March 31st

	1982	1983	1984	1985
Strip Production:				
- Cut, Pile & Forward	-	407	100	448
Contractors:	9,479	-	-	-
Skidder Production:				
- Owner/Operators	17,781	12,593	7,300	12,815
TOTAL	27,260	13,000	7,400	13,263

Annual Delivered and Sold Pulpwood Volume in Cords
As at March 31st

1985	15,483
1984	4,900
1983	19,000
1982	22,000
1981	19,151

While production was budgeted at 15,000 cords for 1984-85, the Company was only able to produce 13,263 cords.

...6/

Absenteeism remains the predominant production problem. Because of the Company's high overhead and mechanized equipment, high dependable production targets are essential to avoid financial losses. This necessitates a work ethic that is contrary to what the Company has experienced.

C. Other Benefits

The Company employed a total of 36 people in 1984-85 with wages and benefits totalling $291,458 compared to $182,212 in 1983-84. Payments to and on behalf of contractors, including wages, amounted to $593,552 in 1984-85 compared to $266,634 in 1983-84. Some 55% of total wages were to residents of Berens River and another 30% to individuals of Indian ancestry from other areas of the Province. Approximately 85% of the payments to Contractors were to residents of the Channel Area.

The Company is the second largest employer in the Berens River area. Only commercial fishing employs more local individuals.

The Company maintains a commissary and grocery store facility for employees. This facility provides a variety of food products, confectionary items, and winter clothing, in addition to an order office for skidder and power saw parts.

D. Training

The Company continues to provide on the job training to production employees. However, a shortage of training funds makes it difficult to provide other employees with management and administrative training.

E. Other

A Secretary to the Board of Directors is provided by the Provincial Government.

Manitoba

CHANNEL AREA LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Channel Area Loggers Ltd. as at March 31, 1985 and the statement of revenues and expenditures, the statement of changes in financial position and the schedules of operating expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at March 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

F. H. Jackson, C.A.,
Provincial Auditor.

September 19, 1985,
Winnipeg, Manitoba.

Exhibit A

CHANNEL AREA LOGGERS LTD.

(Incorporated Under The Corporations Act, Manitoba)

Balance Sheet
as at March 31, 1985
(with 1984 figures for comparison)

ASSETS

	1985	1984
CURRENT ASSETS:		
Accounts receivable (Note 2)	$ 258,831	$ 251,804
Subsidy receivable from the Government of the Province of Manitoba	235,640	109,973
Inventories (Note 3)	148,263	255,104
Prepaid expenses	708	1,567
Total current assets	643,442	618,448
FIXED ASSETS (Note 4)	437,937	354,269
Less accumulated depreciation and amortization	199,842	171,137
Net fixed assets	238,095	183,132
GUARANTEE DEPOSIT WITH THE GOVERNMENT OF THE PROVINCE OF MANITOBA	900	900
DEFERRED EXPENDITURES - Timber Inventory Survey	-	38,876
TOTAL	$ 882,437	$ 841,356

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Excess of outstanding cheques over bank balances	$ 3,723	$ 7,792
Bank demand loan (Note 5)	372,000	200,000
Accounts payable (Note 6)	206,624	169,295
Deferred revenue - advances on pulpwood production	-	126,584
Total current liabilities	582,347	503,671
DEFERRED REVENUE - Assistance from the Government of the Province of Manitoba re Timber Inventory Survey	-	37,595
SHAREHOLDERS' EQUITY:		
Capital stock (Note 7):		
Authorized: 35,000 common shares, maximum consideration not to exceed $350,000		
Issued: 30,009 shares	300,090	300,090
TOTAL	$ 882,437	$ 841,356

Approved by the Board:

Director _____

Director _____

CHANNEL AREA LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1985
(with 1984 figures for comparison)

	1985	1984
REVENUES:		
Pulpwood sales	$ 1,044,769	$ 303,015
Commissary sales	185,417	128,468
Miscellaneous	13,047	12,461
Total revenues	1,243,233	443,944
EXPENDITURES:		
Direct logging costs (Schedule 1)	1,089,684	366,736
General and administrative (Schedule 2)	247,780	235,635
Commissary	174,062	107,605
Total expenditures	1,511,526	709,976
	(268,293)	(266,032)
OTHER INCOME:		
Gain on disposal of fixed assets	3,194	21,088
Gain on fire insurance claims	-	13,571
	3,194	34,659
Excess (deficiency) of revenues over expenditures before prior period adjustments and operating assistance from the Government of the Province of Manitoba	(265,099)	(231,373)
Prior period adjustments (Note 10)	15,413	-
Excess (deficiency) of revenues over expenditures before operating assistance from the Government of the Province of Manitoba	280,512	-
Operating Assistance from the Government of the Province of Manitoba - General subsidy	235,635	109,973
- Specific subsidy (Note 9)	44,877	82,424
	280,512	192,397
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ -	$ (38,976)

Exhibit C

CHANNEL AREA LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1985
(with 1984 figures for comparison)

	1985	1984
SOURCE OF FUNDS:		
Excess (deficiency) of revenues over expenditures	$ -	$ (38,976)
Charges to operations not involving an outlay of funds:		
Depreciation and amortization	32,350	57,065
Deferred expenditures, net	1,281	-
Gain on disposal of fixed assets	(3,194)	21,088
	30,437	(2,999)
Proceeds from disposal of fixed assets	4,500	38,058
Book value of fixed assets realized on fire insurance claim	-	46,734
	34,937	81,793
USE OF FUNDS:		
Purchase of fixed assets, net	88,619	35,353
Deferred expenditures, net	-	1,281
	88,619	36,634
(Decrease) Increase in working capital for the year	(53,682)	45,159
Working capital at beginning of the year	114,777	69,618
Working capital at end of the year	$ 61,095	$ 114,777
Represented by:		
Current assets	$ 643,442	$ 618,448
Current liabilities	582,347	503,671
	$ 61,095	$ 114,777

CHANNEL AREA LOGGERS LTD.

Schedule of Direct Logging Costs
for the year ended March 31, 1985
(with 1984 figures for comparison)

	1985	1984
INVENTORY AT BEGINNING OF THE YEAR	$ 128,956	$ -
PRODUCTION EXPENSES:		
Contract wood purchases	282,633	172,416
Cutters wages and fringe benefits	159,222	79,163
Depreciation	11,620	50,504
Transportation:		
Contract hauling to landing	206,126	51,305
Forwarding to roadside	2,765	521
Freight and fuel movement	18,979	8,208
Personnel transport (Note 9)	20,163	11,980
Road construction and maintenance, net	104,793	42,913
Timber dues	33,583	14,655
Supervision	34,350	21,374
Repairs and maintenance (Note 9)	45,644	27,544
Insurance	3,168	7,924
Other	4,651	-
Net kitchen and dormitory expenses	10,948	7,185
Timber inventory survey	38,876	-
Total production expenses	977,521	495,692
INVENTORY AT END OF THE YEAR	16,793	128,956
DIRECT LOGGING COSTS, EXHIBIT B	$ 1,089,684	$ 366,736

CHANNEL AREA LOGGERS LTD.

Schedule of General and Administrative Expenses
for the year ended March 31, 1985
(with 1984 figures for comparison)

	1985	1984
Salaries, wages and fringe benefits	$ 97,886	$ 82,675
Interest and service charges	37,787	13,690
Travel and accommodation	5,843	9,273
Mobile home	6,792	1,168
Communications	5,057	8,067
Bad debts	27,510	14,570
Legal, audit and accounting	21,494	20,643
Directors' travel and accommodation	7,105	3,800
Directors' fees	2,600	4,890
Office supplies and utilities	1,777	3,283
Taxes, licences and fees	2,146	4,584
Insurance	10,120	3,081
Depreciation	20,730	6,561
Miscellaneous	933	1,728
Campsite development and relocation	-	57,622
General and administrative expenses, Exhibit B	$ 247,780	$ 235,635

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1985

1. Accounting Policies

The accounting policies of the company are in accordance with generally accepted accounting principles and their basis of application is consistent with that of the preceding year.

Inventories:

Pulpwood inventory is valued at the lower of cost or net realizable value based upon the agreed price of deliveries to the purchaser, less an allowance for cullage and shrinkage.

Other inventories are valued at cost.

Fixed assets:

Fixed assets are stated at cost. It is the company's policy to provide for depreciation and amortization of fixed assets on the basis shown in note 4.

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to landing and scaled in accordance with the terms of the sales contract.

2. Accounts Receivable

The major categories of accounts receivable are:

	1985	1984
General	$ 181,800	$ 59,322
Fire insurance claims	-	91,862
Government of the Province of Manitoba	7,282	62,389
Government of Canada	18,567	9,595
Contract cutters	51,182	28,636
	$ 258,831	$ 251,804

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1985

3. Inventories

	1985	1984
The major categories of inventory are:		
Pulpwood	$ 16,793	$ 128,956
Other:		
Commissary supplies	9,838	4,027
Chain saws	2,102	4,206
Parts and supplies	36,434	26,161
Gasoline, diesel fuel and oil	74,482	89,833
Kitchen supplies	8,614	1,921
	131,470	126,148
	$ 148,263	$ 255,104

4. Fixed Assets

The major categories of fixed assets and related accumulated depreciation and amortization at March 31, 1985 are:

	Cost	Accumulated Depreciation and Amortization	Rates
Buildings and Trailers	$ 319,607		
Less: Funded by the Government of Canada	67,298		
	252,309	$ 84,592	10 - 33 1/3%
Machinery and Equipment	206,817		
Less: Funded by the Government of the Province of Manitoba	21,189		
	185,628	115,250	20 - 30%
	$ 437,937	$ 199,842	

It is the company's practice to provide for depreciation of buildings, trailers, machinery and equipment under the declining balance basis at the rates shown above.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1985

5. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

6. Accounts Payable

The major categories of accounts payable are:

	1985	1984
Trade	$ 136,510	$ 126,275
Wage deductions	8,908	16,460
Employees	5,820	-
Government of the Province of Manitoba	55,386	26,560
	$ 206,624	$ 169,295

7. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

8. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The Government of the Province of Manitoba also provides Workers Compensation coverage for Company staff at no charge to the Company.

9. Assistance from the Government of the Province of Manitoba

The Government of the Province of Manitoba provided financial assistance to the Company in the form of an operating subsidy during the year ended March 31, 1985. The subsidy provided $7,282 (1984 - $4,412) towards transportation and maintenance costs associated with the Company's strip cutting operations.

The balance of $37,595 was received in prior years for the timber inventory survey and previously reflected in the accounts as deferred revenue.

10. Prior Period Adjustments

The Company has been assessed by the Government of the Province of Manitoba for taxes due under The Gasoline Tax Act and The Motive Fuel Tax Act. The assessment covers the period from April 1, 1979 to March 31, 1984.

11. Comparative Figures

Comparative figures for the year ended March 31, 1984 have been restated where necessary to conform with the presentation adopted for March 31, 1985.